CalPERS

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Agenda Item 4d

May 17, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: State and Schools Employer Contribution Rates for the 2011-2012 Fiscal Year

II. PROGRAM: Actuarial Office

III. RECOMMENDATION: This is an information item.

IV. ANALYSIS:

The Actuarial Office has completed the calculation of the employer contribution rates for the State and Schools for the 2011-2012 fiscal year. However, we are not yet recommending that the Board adopt employer rates for the 2011-2012 fiscal year since some of the agreements that have taken place between the State and various employee unions had not been ratified and written into law at the time of writing this agenda item.

Therefore, this agenda item provides as information only the employer contribution rates for the State and Schools for the 2011-2012 fiscal year under various scenarios. A recommendation to adopt rates will be presented at the June Board meeting which will reflect the most current ratified agreements written into law at that time. A full actuarial report is expected to be mailed under separate cover in August.

Recap on the 2010-2011 Fiscal Year

Last year, the Board adopted the employer contribution rates for the State and Schools for the 2010-2011 fiscal year at its June meeting. These rates were set based on the benefits and member contribution rates that were in place as of the time of the valuation date i.e. June 30, 2009.

At its August meeting, the CalPERS Board approved a policy that prescribes changes in retirement benefits and member contribution rates being reflected in the employer contribution rates for the State plans immediately upon the effective date of the changes or as soon thereafter as can be accomplished given the Board's meeting schedule.

This change in policy resulted in the Board adopting new contribution rates for the State plans mid-way through the 2010-2011 fiscal year to reflect agreements between the State and various employee unions that specified higher member contributions for all affected employees. Last December, the CalPERS Board adopted new employer contribution rates effective January 1, 2011 that reflected these higher member contributions.

The table below compares the employer contribution rates that were adopted by the Board in June 2010 to those adopted in December 2010 that reflected the higher member contributions as well as the expected employer contribution for the 2010-2011 fiscal year resulting from these contribution rates.

	Employer Contribution Rate for Pay Periods Between July 1, 2010 and December 31, 2010	**Employer Contribution Rate for Pay Periods Between January 1, 2011 and June 30, 2011**	**Expected Employer Contribution for 2010-2011 Fiscal Year**
State Miscellaneous Tier 1	19.922%	17.528%	$1,884,848,488
State Miscellaneous Tier 2	19.622%	16.442%	71,948,991
State Industrial	18.183%	14.683%	94,295,741
State Safety	20.672%	15.702%	372,459,168
State Peace Officers & Firefighters	28.887%	28.556%	1,031,624,346
California Highway Patrol	32.625%	29.956%	229,538,369
Total for the State			**$3,684,715,103**
Schools	10.707%	10.707%	$1,189,482,769

It is important to note that the employer rates effective January 2011 would have been greater but eight to nine months of savings were concentrated into the final six months of the current fiscal year.

State and Schools Employer Contribution Rates for 2011-2012

As mentioned earlier, we are not yet recommending that the Board adopt employer rates for fiscal year 2011-2012 since some of the agreements that have taken place between the State and various employee unions had not been ratified and written into law at the time of writing this agenda item.

At the time of writing this agenda, agreements reached by Bargaining Units 6, 7, 9, 10, and 13 had not been fully ratified and written into law. Overall, the increase in member contributions varies between 2% and 5% of payroll.

The table below outlines the changes in rates and total dollar amount for the various State Plans as a result of the agreements ratified and also shows the rates for the State Plans if the agreements for the outstanding Bargaining Units are ratified. For comparison purposes, it also includes the employer contribution rates had none of the increases in member contributions taken place.

	Without Increase in Member Contribution		**With Increase in Member Contributions for Ratified Agreements[1]**		**With Increase in Member Contributions for All Agreements (Includes those not Ratified Yet)**	
	Employer Contribution	**Employer Rate**	**Employer Contribution**	**Employer Rate**	**Employer Contribution**	**Employer Rate**
State Miscellaneous Tier 1	$2,051,672,059	20.248%	$1,864,648,420	18.402%	$1,841,648,485	18.175%
State Miscellaneous Tier 2	76,008,928	19.892%	66,249,779	17.338%[2]	65,054,003	17.025%[2]
State Industrial	109,976,335	17.859%	92,326,471	14.993%	91,966,115	14.934%
State Safety	403,405,677	20.129%	340,094,724	16.970%	329,227,399	16.428%
State Peace Officers & Firefighters	1,026,639,409	29.717%	1,008,702,828	29.198%	947,128,065	27.415%
California Highway Patrol	253,954,443	33.092%	239,927,089	31.264%	239,927,089	31.264%
Subtotal State	**$3,921,656,851**		**$3,611,949,311**		**$3,514,951,156**	
Schools	1,232,486,937	10.923%	1,232,486,937	10.923%	1,232,486,937	10.923%
Total	**$5,154,143,788**		**$4,844,436,248**		**$4,747,438,093**	

In order to adjust the employer contribution rates to reflect the higher member contributions, CalPERS staff obtained information from the Department of Personnel Administration (DPA) on each Bargaining Unit's actual ratified agreements and on proposed agreements yet to be ratified and on the size of each group affected by the increases in member contribution rate.

Please refer to Attachment 1 for a table comparing the previous member contribution rates and the newly approved member contribution rates for all Bargaining Units that have ratified agreements. Also included is a table comparing the existing member contribution rates and the proposed member contribution rates for Bargaining Units whose agreements have not been ratified.

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[1] These are the agreements ratified prior to December 2010 and first reflected in the employer contribution rate effective January 1, 2011.

[2] Note that even though State Miscellaneous Tier 2 members do not have member contributions, the employer contribution rate still needs to be adjusted to account for the fact that State Miscellaneous and State Industrial Tier 2 members have the right to convert their Tier 2 service to Tier 1 any time prior to retirement.

Finally, Attachment 1 contains a table providing percentages of the active population affected by the increase in member contribution rates.

Separate Employer Rates for CSU

The last outstanding issue regarding the State contribution rates is related to California State University (CSU) employees. CSU employees participate in both the State Miscellaneous plan and the POFF plan. Last fall, on November 29, 2010, CalPERS received a letter from Department of Finance requesting that separate employer rates be set for CSU employees because CSU employees have not bargained for an increase in member contributions. There is no mandate requiring the separation of rates for these groups of employees. Thus, the rate in the agenda item is common for both groups. However, separate rates have been calculated for informational purposes as set forth in Attachment 2.

Reasons for Changes in Employer Contributions for the State Plans

If considering all agreements between the State and employee unions (including those not ratified yet), the required contribution for the State plans will decrease by $169.8 million.

This decrease in expected contributions is mainly driven by the increase in member contributions. In reconciling the change to expected contributions, if one ignores the increases in member contribution, then the State plans are experiencing an increase in contribution of $33.4 million due to plan experience. This includes $95.5 million due to the asset loss experienced in 2008-2009 that is being phased in by the temporary rate smoothing methods adopted by the Board in December of 2009. The reasons for the changes in employer contributions for the State between fiscal year 2010-2011 and fiscal year 2011-2012 are shown in the table on the following page.

Reason for Change	Change in Required Contribution (millions)
Increase due to growth in payroll and normal progression of existing amortization bases	$31.9
Actuarial gains and losses:	
• Impact of the second year of smoothing the - 24% investment return from fiscal year 2008-2009	95.5
• Lower than expected individual salary increases and overall payroll increases less than expected in fiscal year 2009-2010	(101.3)
• Greater than expected number of retirements in fiscal year 2009-2010	54.2
• Less than expected contributions received in fiscal year 2009-2010	19.7
• Experience for Retirees in fiscal year 2009-2010 including Cost-of-Living Increases less than expected	(25.6)
• Other Gains and Losses	(41.0)
- Impact of reflecting a full year of additional member contributions for agreements that were in effect in December 2010[3]	(106.2)
- Impact of additional member contribution for remaining agreements if they are ratified	(97.0)
Total Change in Required Contributions	($169.8)

Reasons for Changes in Employer Contributions for the Schools Pool

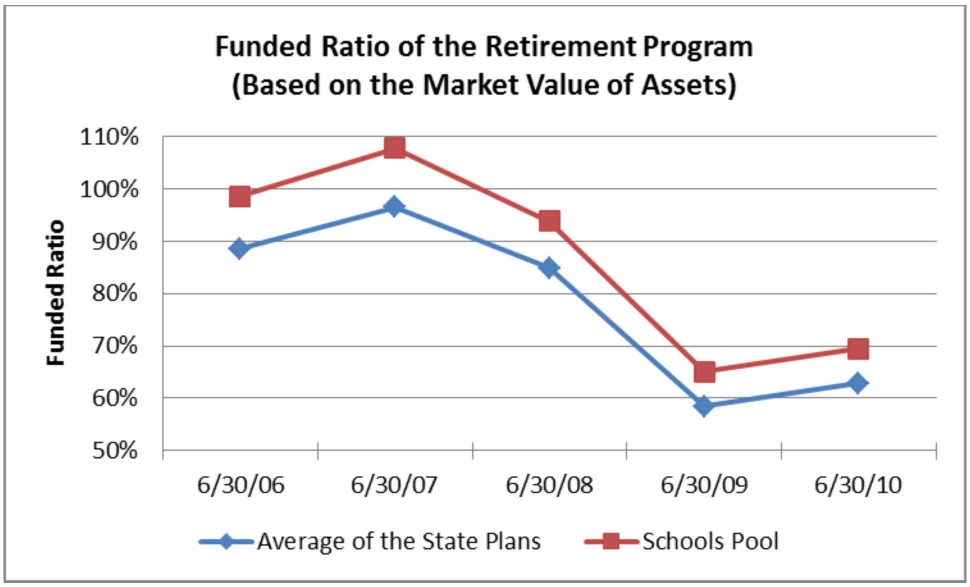
The required contributions for the Schools pool are increasing by $43.0 million from $1.189 billion in fiscal year 2010-2011 to $1.232 billion in fiscal year 2011-2012. The main reasons for the increase includes the second year of recognizing asset losses from 2008-2009 offset by a combination of payroll increases less than expected, cost of living adjustments less than expected and higher than expected number of retirements. About $48.7 million of the Schools pool contribution is caused from phasing in the large asset loss experienced in 2008-2009 through the temporary smoothing methods.

[3] The rates set beginning January 1, 2011 reflected eight to nine months of additional member contributions. The rates for 2011-2012 reflect twelve months of additional member contributions.

Funded Status

We are determining the funded status of the State plans and Schools pool using the market value of assets since this is a better measure of the plans ability to pay benefits.

As a result of the 14% investment return experienced by CalPERS in fiscal year 2009-2010 versus the assumed 7.75%, the funded status has increased by about 3.5% to 7% for all plans. The graph below shows the average funded status for the State plans and for the Schools pool, based on the market value of assets, for the last five years.



Attachment 3 shows the funded status of the plans using the market value of assets on June 30, 2010 and the funded status for each of the plans for the last five years.

Investment Return Sensitivity Analysis

With the goal of being more transparent and providing additional information to all employers to better help them budget for future years, the Actuarial Office started last year including an investment return sensitivity analysis in all annual actuarial valuation reports.

Investment return sensitivity analysis can show potential risk to contribution rates. Since the fiscal year has not yet ended and the investment return for 2010-2011 is not yet known, the Actuarial Office will include the analysis in its full actuarial valuation report. This report is expected to be available in August and will include projected rates for 2012-2013 using the investment return rate from the 2010-2011 fiscal year and an investment return sensitivity analysis for the three years following.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial Office.

VI. RESULTS/COSTS:

See attachments.

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Attachments